HART SCHAFFNER & MARX

Thirty-Ninth Annual Report
November 30, 1949

EXECUTIVE OFFICES

36 SOUTH FRANKLIN STREET
CHICAGO 6, ILLINOIS

▼

BOARD OF DIRECTORS

EUGENE BASHORE	JOSEPH HALLE SCHAFFNER
MEYER KESTNBAUM	JOEL SPITZ
LESSING ROSENTHAL*	CLAY E. STEELE

HARRY L. WELLS

*Deceased, December 20, 1949

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OFFICERS

MEYER KESTNBAUM	*President*
MORRIS GREENBERG	*Vice-President*
W. RAY MANNING	*Vice-President*
BERNARD A. RITTERSPOON	*Vice-President*
CLAY E. STEELE	*Secretary and Treasurer*
THOMAS E. DAVISON	*Comptroller*
MORRIS NEUFELD	*Assistant Secretary and Assistant Treasurer*

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TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois

Bankers Trust Company
New York 15, N. Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois

The New York Trust Company
New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO NEW YORK

March 1, 1950

To the Stockholders:

The annual report for the fiscal year 1949 submitted herewith covers a period in which your company along with the clothing industry in general was faced with a number of adjustments. Consolidated sales which had reached an all-time high of more than $63 million in 1948 declined to $57,773,088 in 1949. Net profits for the year amounted to $1,568,028 as compared with almost $2.9 million for the previous year.

Uncertainties during the year had an adverse effect on both sales and profits. To some degree they were anticipated in the letter accompanying the last annual report. A decline in retail volume reflecting more cautious buying on the part of consumers exerted pressure on the price structure. Retailers, in their desire to reduce inventories, made their commitments on a very conservative basis. The long-anticipated decline in the price of woolen and worsted fabrics occurred during the latter part of the year. While the adjustment which brought about moderately lower clothing prices was a healthy one it involved inventory losses both at wholesale and at retail.

There now appears to be greater confidence in the price structure. The present trend of wool prices is upward and wage rates remain firm. Clothing stocks have been reduced and retailers' Spring orders, as is evidenced by our own bookings, are below those of last year. There is a good possibility that certain wanted items of clothing will be in short supply during the next few months.

The balance sheet as at November 30 reflects a number of favorable changes. Inventories are approximately $2½ million less than last year. In accordance with plans announced a year ago, working capital has been increased. On April 12 we sold to The Equitable Life Assurance Society of the United States an additional $2 million of 3½% sinking fund debentures. The proceeds were used to remodel and equip the new factory building acquired in 1948 and to pay off the balance of the purchase price. The new building is now in operation. We expect that our greatly improved manufacturing facilities which are now largely concentrated in one building will produce substantial gains in efficiency.

For a number of years the company has been engaged in improving its retail stores. The new Silverwoods store in the Crenshaw district of Los Angeles which was opened last April has developed a very satisfactory rate of volume. A new Wallach store in Jamaica, Long Island, considerably larger and more attractive than the one formerly occupied, opened in December and it too has met with very favorable response. The Baskin store in Chicago which represents one of our important investments continues to do well. In certain areas, a number of our stores have encountered problems and retail competition may become more severe but we believe that the improvement program will continue to contribute materially to the volume and to the profits of our stores. Several additional projects are contemplated but that portion of the program which involves abnormal expenditures should be very largely completed by the end of the current year.

Your management is seeking to keep in touch with technological developments in the textile field. Although the company is identified by tradition and by experience with all-wool fabrics we believe that we should be sensitive to any new developments which offer important opportunities for quality clothing. Up to the present time relatively few of the fabrics using synthetic fibers in conjunction with or as a substitute for wool have possibilities for us but there may be significant advances in this field in the future.

Business is being currently conducted in an atmosphere which is affected to a large degree by the monetary and fiscal policies of our government. At the present moment the prospects for an improved rate of activity in the clothing industry seem to be favorable. We expect however that costs will remain high and that we shall be under continuing pressure to operate on narrow margins. Your management is making every effort to adapt itself to these conditions.

On December 20 the company sustained a great loss in the death of Lessing Rosenthal. As personal attorney, he was closely associated with the founders during the early development of the company. For almost twenty-two years he was a loyal and valued member of the board of directors. He had many occasions throughout his lifetime to demonstrate his pride in the progress of the company and his great devotion to its welfare.

Respectfully submitted,

MEYER KESTNBAUM
President

HART SCHAF

AND SUBSIDIA

CONSOLIDATED

As of November

Assets

	1949	1948
Current Assets:		
Cash	$ 2,827,557	$ 2,258,522
U. S. Government securities, at cost	75,000	76,200
Notes and accounts receivable—		
Trade, less reserves for doubtful balances and discounts	5,507,274	6,756,300
Other	378,799	408,728
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower computed by the retail method	15,478,216	18,018,171
Prepaid rentals, insurance, supplies, etc.	519,498	515,369
Total current assets	$24,786,344	$28,033,290
Other Assets:		
U. S. Government securities (at cost) and cash deposited in escrow for building purposes and deposits under leases	$ 322,964	$ 626,081
Notes of officers and employees for purchase of company's common stock	206,016	219,200
Sundry investments (at cost) and loans, less reserves	359,141	359,514
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	80,631	64,916
	$ 968,752	$ 1,269,711
Properties, at cost:		
Building, shop equipment, furniture and fixtures	$ 8,455,652	$ 7,118,840
Reserve for depreciation	3,342,702	3,114,354
	$ 5,112,950	$ 4,004,486
Leaseholds and leasehold improvements less amortization	3,864,007	4,034,294
Land	728,841	120,000
	$ 9,705,798	$ 8,158,780
Goodwill, Trade Names and Trade-Marks, at record value	$ 1	$ 1
	$35,460,895	$37,461,782

FNER & MARX

RY COMPANIES

BALANCE SHEET

0, 1949 and 1948

Liabilities

	1949	1948
Current Liabilities:		
Notes payable to banks	$ 1,000,000	$ 2,000,000
Note payable secured by purchase money mortgage on real estate (Paid in 1949)	——	1,207,000
Sinking fund debentures payable May 31, 1950 and 1949 respectively	485,000	400,000
Accounts payable—		
Trade	1,669,431	2,225,009
Other	679,290	755,180
Accrued salaries, wages and rents	780,005	1,074,546
Accrued taxes (other than taxes on income)	351,261	330,036
Reserve for federal and state taxes on income	887,703	2,096,865
Total current liabilities	$ 5,852,690	$10,088,636
Funded Debt:		
3½% Sinking fund debentures, due June 1, 1963	$ 7,600,000	$ 6,000,000
Less—Amount payable in 1950 and 1949 respectively, included in current liabilities	485,000	400,000
	$ 7,115,000	$ 5,600,000
Minority Stockholders' Interest	$ 103,042	$ 99,893
Reserve for Contingencies	$ 700,000	$ 700,000
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares par value $10.00 each	$ 3,750,000	$ 3,750,000
Surplus per accompanying statement—		
Capital surplus	1,628,475	1,628,475
Earned surplus	16,742,915	16,026,005
	$22,121,390	$21,404,480
Deduct—Treasury stock—20,367½ shares	431,227	431,227
	$21,690,163	$20,973,253
	$35,460,895	$37,461,782

NOTE:

Under the provisions of the debenture issue, $13,882,309 of the total consolidated earned surplus at November 30, 1949, is restricted as to payment of dividends.

HART SCHAFFNER & MARX

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS

For the fiscal years ended November 30, 1949 and 1948

PROFIT AND LOSS

	1949	1948
Net sales and operating revenues	$57,773,088	$63,037,888
Dividends from sundry investments, interest and other income	140,754	218,775
Total	$57,913,842	$63,256,663
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	$42,639,573	$45,601,883
Depreciation and amortization	700,768	620,153
Selling, general and administrative expenses	11,718,151	11,881,440
Interest paid	298,445	175,755
Sundry income deductions	30,323	30,215
Minority interest in net profits of subsidiaries	4,899	10,312
Provision for taxes on income—		
Federal normal income tax and surtax	936,511	2,012,016
State income taxes	17,144	30,075
Total	$56,345,814	$60,361,849
Profit for the year transferred to earned surplus	$ 1,568,028	$ 2,894,814

CAPITAL SURPLUS

	1949	1948
Balance at beginning and end of year	$ 1,628,475	$ 1,628,475

EARNED SURPLUS

	1949	1948
Balance at beginning of year	$16,026,005	$13,982,309
Profit for the year from consolidated statement of profit and loss	1,568,028	2,894,814
	$17,594,033	$16,877,123
Dividends of $2.40 per share in 1949 and 1948	851,118	851,118
Balance at end of year	$16,742,915	$16,026,005

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx and its subsidiary companies as at November 30, 1949, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1949, and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as at November 30, 1949, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmation in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1949, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO, ILLINOIS
January 25, 1950

FIVE YEAR SUMMARY

	1949	1948	1947	1946	1945
Net Sales and Operating Revenues	$57,773,088	$63,037,888	$56,527,917	$45,808,460	$33,805,246
Federal Income Taxes	936,511	2,012,016	2,261,795	2,202,476	2,247,479
Net Earnings After Federal Income Taxes	1,568,028	2,894,814	3,212,126	3,423,126	1,645,860
Per Share	4.42	8.16	9.06	9.44	4.63
Dividends Paid in Cash	851,118	851,118	855,678	644,518	569,252
Per Share	2.40	2.40	2.40	1.80	1.60
Net Earnings Retained for Use in the Business	716,910	2,043,696	2,356,448	2,778,608	1,076,608
Property Additions*	2,061,488	3,266,729	2,627,631	1,475,926	282,702
Current Assets	24,786,344	28,033,290	22,121,816	20,179,895	16,964,572
Current Liabilities	5,852,690	10,088,636	9,090,219	6,416,958	4,373,192
Net Current Assets	‡18,933,654	†17,944,654	13,031,597	13,762,937	12,591,380
Fixed Assets—Less Depreciation and Amortization at November 30th	9,705,798	8,158,780	5,333,448	2,604,087	1,292,600
Net Worth	22,390,163	21,673,253	19,629,557	17,580,661	14,528,053

*Retail store leasehold improvements and equipment—Real Estate—Factory Building and manufacturing equipment.

†In 1948 the company issued $6,000,000 of 3½% sinking fund debentures, the proceeds from which (less $400,000 payable in 1949 and included in current liabilities of 1948) were added to working capital.

‡During 1949 the company issued an additional $2,000,000 of 3½% sinking fund debentures, the proceeds from which (less $485,000 payable in 1950 which is included in current liabilities of 1949) were added to working capital.